

Testimony

on behalf of the

National Cattlemen's Beef Association

with regard to

“Small Businesses and the Estate Tax: Identifying Reforms to Meet the Needs of Small Firms and Family Farmers”

submitted to the

United States House of Representatives – Committee on Small Business

The Honorable Nydia M. Velazquez, Chairwoman

submitted by

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Chairman – NCBA Tax and Credit Committee

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Washington, DC



**National Cattlemen's
Beef Association**

Madame Chair, Ranking Member Graves, Members of the Committee - my name is Arthur Uhl and I am a rancher, cattle producer and attorney from San Antonio, Texas. I am testifying on behalf of the National Cattlemen's Beef Association (NCBA), which is the largest and oldest national organization representing America's cattlemen and women. As Chairman of NCBA's Tax and Credit Policy Committee, I can testify that the repeal or fundamental reform of our federal estate tax system is at the heart of NCBA's mission, and we believe it is critical to the long term viability of our industry. I appreciate your Committee raising awareness of the tremendous burden that the estate tax places on America's farmers and ranchers. Ninety-seven percent (97%) of American farms and ranches are owned and operated by families--many of which have owned their property for generations. To small and medium sized operations, this tax can be a death sentence. Thank you for holding this hearing and bringing cattlemen to the table.

Tax policy is a key factor impacting American cattle producers, particularly in today's difficult business climate. In an industry where financial returns are historically small, we depend upon the ability to pass on a farm or ranch to the next generation without exhausting resources for arduous planning, or being forced to break apart economically viable operations. We view the estate tax as fundamentally unfair, inefficient, economically stifling and particularly devastating to our business, which requires very highly valued assets to produce minimal economic returns. Cattle producers understand and appreciate the role of taxes in maintaining and improving our nation, but they also believe that the most effective tax code is a fair one. For this reason, NCBA members fundamentally disagree with the taxing of assets that have already been taxed, sometimes two and three times over. In the eyes of American farmers and ranchers, death should not be a taxable event for either the estate or its heirs.

The current onerous estate tax system is also at odds with our important national goals of preserving natural resources and open space. Family farms and ranches provide an abundant and necessary source of food and fiber to feed the growing global population, as well as Americans right here at home. Not only are they producing nutritious food, America's farmers and ranchers are taking care of the land, air, and water that make our way of life possible. The Death tax breaks up farm and ranch land and displaces family generational farms and ranches, expediting their conversion to strip malls and condo complexes and doing a great disserve to the American public and the rural way of life.

All family businesses would like to see this tax go away, and historically the cattlemen have fought for full repeal of the estate tax. But our members recognize full repeal is not an option at this time, so we are simply asking Congress to reform the estate tax to give some relief and certainty to dedicated farming and ranching families who continue to work and preserve the land.

The minimal amount of progress which has been made is at risk of being undone. Currently, the estate tax rate is set at 45% for estate assets exceeding \$3.5 million in value (or \$7 million for a couple). The President's proposed budget would freeze the estate tax at these levels so it can be dealt with at a later date. If Congress does nothing, in 2011, the exemption amount and tax rate would revert to staggering pre-2001 tax

levels, meaning estate assets exceeding \$1 million would be taxed at a 55% rate. When you factor in land and equipment, not to mention rising property values – it's clear that most farms and ranches would easily exceed the \$1 million threshold. This is value that most farmers and ranchers will never see in terms of cash, as it is tied up in productive assets which we hope to pass down to the next generation.

An estate valuation of agricultural lands which is based on its productive value, as opposed to its fair market value, is an optimal way to diminish the devastating effects of the estate tax on a family ranching operation. Farm and ranch land market values continue to increase based on many things including their proximity to urban sprawl. In most cases, this inflated value is the base for assessing the Death tax, resulting in the need to liquidate productive agricultural assets in order to keep what we can. Indexing for inflation is absolutely critical in countering escalating land values, and stepped-up basis provisions are imperative when those assets have been levied with the tax. NCBA has supported recent legislative proposals to increase the exemption levels and decrease the rate of taxation.

For these reasons, it is our recommendation that Congress act swiftly to bring further reform to the Death Tax. We urge you to work with Chairman Rangel and the Ways and Means Committee to include the reform ideas laid out in Rep. Berkley's bill, as well as the adoption of the agricultural valuation of estate assets contained in the Thompson/Salazar bill because, at the end of the day, all we really want is to keep our farms and ranches in production. We need farms and ranches to stay whole and be passed down from generation to generation in order to take care of the land, feed our country, feed the world, and maintain our way of life.

NCBA appreciates the House Small Business Committee holding this hearing. U.S. cattle producers need your leadership, and we look forward to a continuing dialogue on this important issue.